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SUPPLIER SELECTION PROCESS IN GLOBAL SOURCING

Case: Lindström Oy, sourcing garments from Vietnam

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ABSTRACT

In recent years Vietnam's textile and garment industry has witnessed a stunning development with enormous opportunities for foreign investments. With full support from Vietnamese government, the industry has been growing with a fast and steady pace and is currently one of the biggest garment suppliers in the region. This thesis is conducted to assist the case company-Lindström Oy in their process of finding and evaluating potential garment suppliers from Vietnam.

The theoretical part of the study introduces background information about global sourcing and discussion about its own advantages and disadvantages. Following are related theories supporting the topic including the characteristics of strategic sourcing and the criteria in supplier selection process.

In the empirical part, the nature of the Vietnamese economy and country as well as the textile and garment sector is explored. The used criteria to evaluate Vietnamese suppliers are based on the theoretical framework and information from the case company. An interview with the sourcing manager of Lindström has been done for more information in their requirements and criteria concerning potential suppliers.

The study employs inductive approach based on qualitative method, including both primary and secondary data. Data is collected from various sources of which secondary data is collected through books, journals, reports and articles. Primary data is gathered through interview and field observation.

Finally it is concluded that Vietnam is a great sourcing location for the case company and they should start the sourcing process as soon as possible. The evaluation of Vietnamese suppliers shows positive results for Lindström however further studies are advised to be conducted for more accurate information in order to achieve the most benefits from the sourcing decisions.

Keywords: global sourcing, Vietnam, Lindström, supplier selection process, garment-textile industry, strategic sourcing.

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1 INTRODUCTION

This chapter begins with the background information of the thesis, showing the reason for choosing the Vietnamese apparel industry as a subject of research. A brief overview of the global apparel-textile market along with the trend in sourcing will be indicated followed by explanation of the research's objective, questions, scopes and limitations and finally the thesis's structure. Research methodology and approach are also included in this chapter.

1.1 Background

This thesis is conducted for a Finnish textile service company-Lindstrom Oy with the purpose of examining and evaluating the potential of Vietnamese apparel industry to become a new sourcing location for the case company. As the term 'globalization' is so common nowadays implying functional integration between internationally dispersed activities (Gereffi & Memedovic 2003, 2), many industries have been globalized especially the apparel-textile industry-one of the most global sectors of commerce.

The activities of sourcing is among the most important factors in the apparel value chain and have been developed constantly from domestic purchasing to international purchasing and finally global sourcing worldwide (Trent & Monczka 2003, 610-612). In recent decades, the retail and manufacture sectors in developed countries have undergone major restructuring drives by the need of finding cheaper production cost which shifted the trend of manufacturing to developing countries where labor and material costs are low. The most recent trend of production migration has been taking place with new supply countries from Southeast Asia including Vietnam since 1990s (Gereffi & Memedovic 2003, 4-5.). Vietnam has been seen as a one of the fastest growing industry in the region especially the apparel-textile sector which ranked number 2 in the nation's export value in 2012 (Textile world 2012). Follow the trend of production line, Lindstrom's intention is to start sourcing from Vietnam as a rising competitive market since they have already established their presence in the surrounding countries include China, India,

Malaysia etc. (Pyhältö 2012) The aim of this thesis is to assist Lindström Oy to answer the question “should they start sourcing from Vietnam and if so who are the potential suppliers from the targeted country?”.

With a fast and steadily growing industry which receives full support from Vietnamese government, the nation's apparel-textile sector has been an attractive investment location especially after the joining WTO in 2007, opening free quotas for exporting apparel products. Along with many advantages of the industry such as low labor cost, supportive policies, free trade restrictions etc. Vietnam's apparel suppliers also have many weaknesses that the sourcing companies should be aware of including limited and weak technologies and machineries availability, poor quality products and the dependence of imported raw materials.

The aim of his study is to help the case company go through steps to gain insight into the Vietnamese apparel-textile industry to have a deep understanding of the sector's structure and how to find desired suppliers from the country. The research will also be valuable to other apparel firms that are interested in sourcing from Vietnam, providing them the overview of the market and potential opportunities not only in sourcing but also investing in the industry.

1.2 Research questions and objectives

The case company has decided to study Vietnamese business environment in general and the textile garment industry in particular in order to find suitable candidates to produce their products. The author was accordingly ordered to carry out a desk research focusing on analyzing and evaluating Vietnamese garment market. Also the future development prospects are within the scope of this study in order to give recommendations regarding the Vietnamese sourcing market to the case company in the long term. As a consequence, the following research questions are formed.

Research question: Would Vietnam be a potential sourcing market for the case company?

The objectives of this thesis are to assist the Case Company in answering the main research questions as well as providing it with relevant information required for the process of sourcing from Vietnam. In order to achieve these objectives, the below sub research questions are identified as:

- What is the current situation in Vietnamese apparel industry and market's features such as garment's quality, fabrics' availability and production cost?
- Who are the potential suppliers in Vietnam for the case company?
- What are the evaluation's criteria for Vietnamese suppliers?

1.3 Scope and Limitations

Global sourcing is a very broad term that includes many steps in the whole sourcing process and this study will only focus on the analysis of the targeted sourcing country and a list of potential suppliers as the following jobs belong to the case company. However deeper research for each supplier will not be carried out due to the case company's request and the author limitation of field researches. An overview of Vietnam's business and political environment in general and apparel industry in specific are indicated later in chapter 2.

It should be noted that even though the case company offers many products and services, only workwear products in the "Ready-made workwear collections" will have deeper analysis in this research and a draft list of potential suppliers for the desired products is given later along with the evaluation of Vietnamese vendors. The suppliers are chosen based on criteria from Lindström through interview and the author's own observation during the internship there. Some criteria from the theories in the study are also used in the supplier selection process such as geographical location between supplier and buyer and certifications of the company. The work is done based on desk research and the author tried to get the most updated information about Vietnam's apparel industry however information about the suppliers are limited and the researcher only contacted them in the first step to

ask whether they were interested in being the new supplier for Lindström. Hence it is advised that the next steps belong to the case company to contact them and make further researches include field researches in order to make the right sourcing decisions.

1.4 Research methodology

According to Saunders & Thornhill (2009, 125-130) there are 2 main methods of approach which are deductive and inductive. Deductive approach starts at a theory or hypothesis, a study or research is carried out to test the validity of that theory or hypothesis. Deduction approach goes from general to more specific.

In contrast, induction helps the researcher to give conclusions based on the collected and analyzed data or in other words, inductive approach defines what theory could be explained from the data (Saunders 2009, 127-130)

The research approach used for this thesis is inductive based on the nature of the study. In this thesis, inductive approach will be applied which is indicated in figure 1.

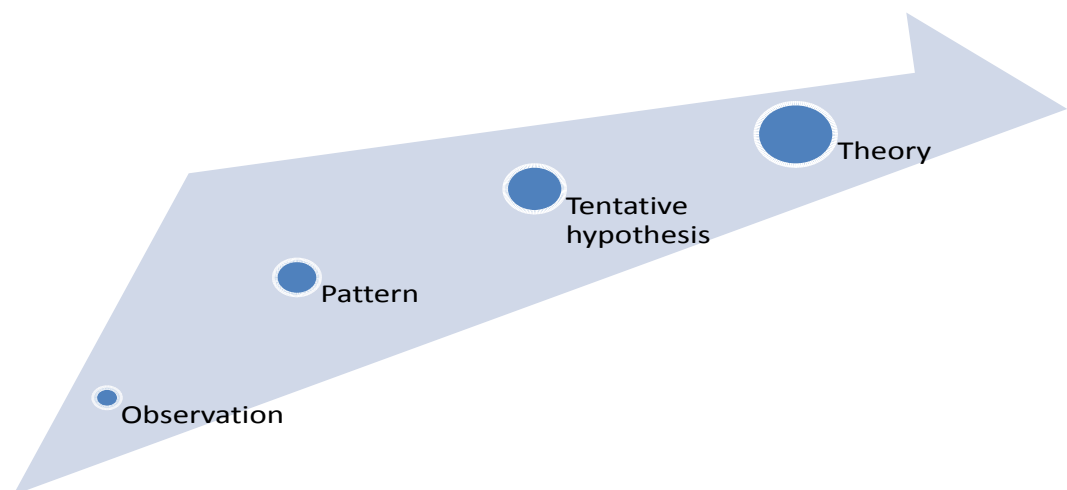


FIGURE 1. Inductive approach model

When research method comes into consideration, there are 2 main approaches which are qualitative and quantitative research methods. The thesis's structure as

well as data collection and data analysis depends on the chosen method. Quantitative is the method in which the researcher primarily uses post positivist claims for developing knowledge (hypothesis or theory), conducts experiments and survey and collects data on predetermined implements that yield statistical data.

(Creswell 2003, 27-30)

Alternatively, qualitative is one in which the researcher makes knowledge claims based on existant observation, theory to gain in an deep, holistic view of a group of people or any phenomenon and collect open-ended and emerging data with the intent of developing themes from them. (Creswell 2003, 179-182) In other words, the qualitative process can be presented as a path from theory to text and another from text back to theory.

Based on the nature of this thesis to give analysis and evaluation of the Vietnamese textile-garment industry and to find potential suppliers for the Case Company, qualitative research method will be used in the study. The researcher plays an important role in analyzing the data hence it enables her to gain a deep understanding of the current business.

1.5 Research design and data collection

In order to understand deeply and gain adequate information to conduct the study, the use of multiple methods of data collection is required. Yin (2003, 97) suggested that the use of different data collection methodology is important to strengthen the author's arguments as well as the validity and reliability of the study. In this thesis, both primary and secondary data will be collected by published sources, interview, document review and the author's own observation.

The theoretical framework of this study consists of mainly secondary data and gives descriptions of adopted theories that will be used later in the empirical part. It generates definition and related subjects in global sourcing including benefits and challenges of global sourcing process as well as criteria in supplier selection

process. The empirical part is built based on the theories that are presented in the theoretical framework and consists of 3 parts:

- Brief information of the country of Vietnam and the Vietnamese apparel industry
- Case company and products analysis including company's sourcing procedures and requirements.
- Vietnamese supplier evaluation based on company's criteria and potential suppliers.

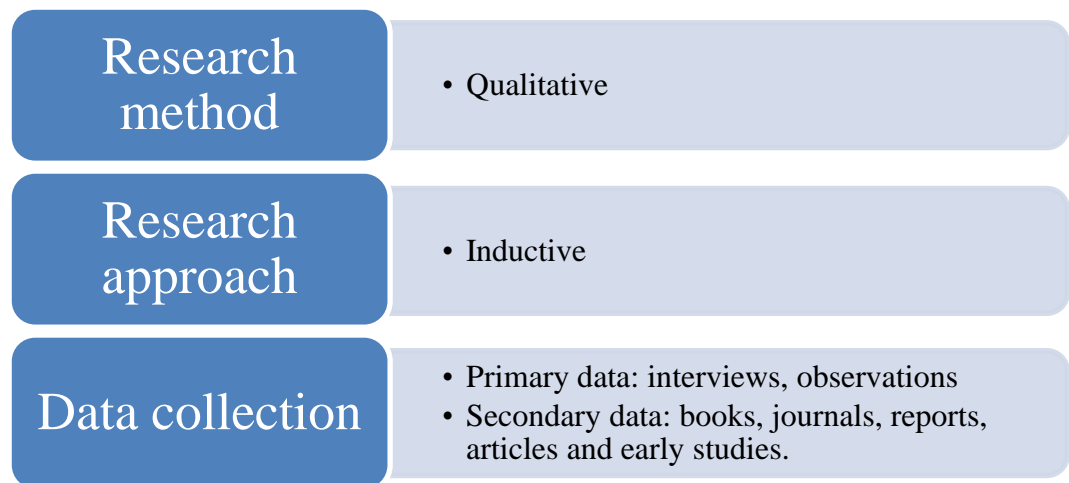


FIGURE 2. Research design

In the empirical part of this study, both primary data and secondary data are used which is shown in figure 2. Primary data are collected from the interview with the sourcing manager of the case company, the case company's annual report and also from the author's own observations from the practical training period in Lindström. Secondary data are taken from published sources such as books, journals, website and previous studies. Many researches have been carried out for Vietnam's apparel industry with accurate information therefore they are excellent contemporary secondary information during desk research.

1.6 Thesis structure

The structure of this study is indicated in figure 3.

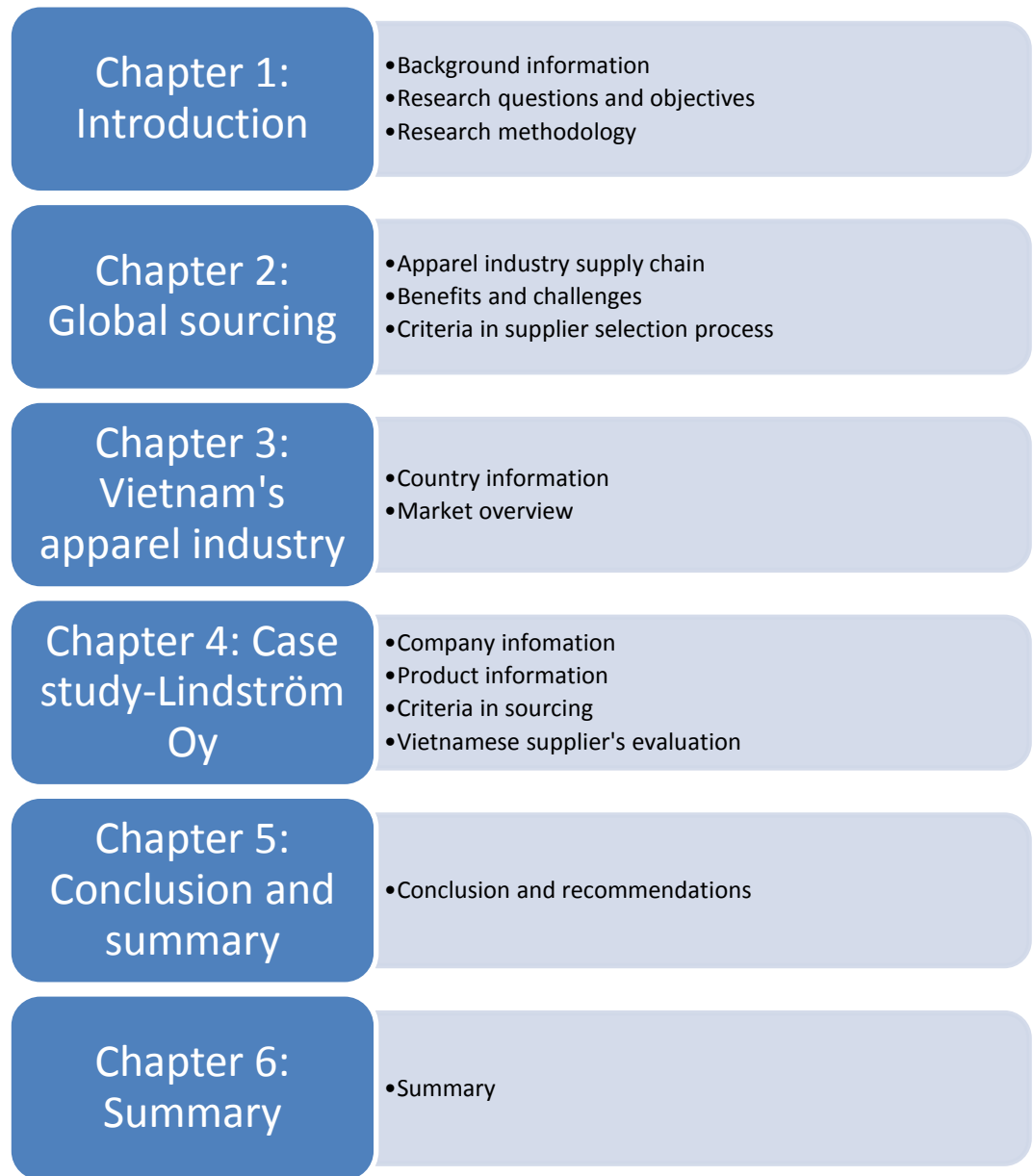


FIGURE 3. Thesis's structure

This study has been divided into 2 main parts, the theoretical framework and the empirical part. Firstly the theoretical part is located in chapter 2 which gives the readers basic and relevant information about the theories background knowledge that will be used later when analyzing the case study. Discussion about benefits and challenges in global sourcing as well as criteria in the supplier's selection process will be carried out in this chapter.

Secondly the empirical part includes chapter 3 and 4. In chapter 3, the author will give the reader an insight of Vietnamese economy in general and Vietnamese textile and garment market in detail. Following is chapter 4 with the case company analysis for deeper understanding of the product's nature and company's criteria in choosing suppliers. It also indicates the evaluation of Vietnamese garment suppliers as potential sourcing vendors for the case company.

Chapter 5 concludes the thesis with some recommendations for the Case Company and further researches. Finally chapter 6 summarizes the study.

2 GLOBAL SOURCING

In order to understand the importance of global sourcing, first, one has to have broad knowledge of the apparel industry's characteristic. As a part of the textile-apparel production and distribution chain, the industry plays a significant role in global trade generating the highest amount of industrial employment especially in developing countries. The apparel industry is one the most obvious examples of globalization as it happens in every steps of the industry. Followed by this is the definition and nature of global sourcing as well as common issues effecting the sourcing decisions.

2.1 Supply chain in apparel industry

In today's globalized world, a strong supply chain is crucial for apparel firms to gain advantage and maximum benefits by offering the best value to their customers. The textile apparel industry is one of the oldest manufacturing industries in the world with a truly global production process with a textile-apparel-retail supply chain comprehensively covers all of the operations of the textile-apparel complex as well as the functions of distribution and retail activities to the end user / consumer. (Su & Gargeya 2011, 3)

The textile-apparel-retail supply chain is a complex process which is affected by numerous stages in the chain, the multiplicity of activities, the destruction of the market, the varying products and quality specifications. The industry itself is characterized by short product lifecycle, high unpredictability, large variation in demand and a high number of stock-keeping units. Figure 4 below shows the material flow sequence in the textile-apparel industry supply chain. (S. K. Jakhar 2012)

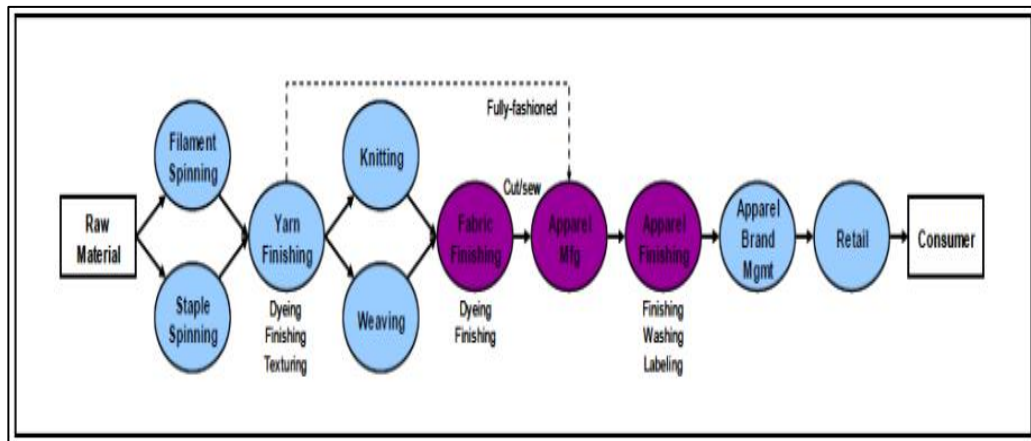


FIGURE 4. Apparel industry supply chain (S. K. Jakhar 2012)

The production of apparel develops from a company's designing ideas, then turns into patterns and samples. After that the samples are made from selected raw materials in the production process. In the global apparel-textile industry nowadays, the preproduction part includes from designing to purchasing of materials is completed by big apparel companies in developed countries and then the garment production is sourced out to manufacturers around the world in order to cut down costs. (S. K. Jakhar 2012)

With rather complicated operations like that, the decision for sourcing in every step from materials importing to the actual garment making needs to be considered carefully.

The nature of the apparel manufacturing industry is labor intensive with competition between companies seeking a cheaper product price. The apparel-textile industry is divided into upstream and downstream segments where upstream activities include fiber and textile industries (raw materials) and downstream sectors are apparel production and distribution. In the upstream sector, enormous investments are often required for machineries and technology so the producers are able to fill their duties. In the upper end sector of the industry, a vast amount of manufacturers with low-wage workers from developing countries are available to compete for retail business and ready to offer competitive price. Retailers often use this op-

portunity to their own advantage in requiring lower costs and improved quality for goods and services. However in recent decades, the multiple criteria of cost, quality, delivery time, reliability and flexibility are becoming critical for the industries. (Su & Gargeya 2011, 4)

Due to the stable characteristic of supply markets and the slow change of technology as well as the competitiveness in the market, purchasing and supply management were used to be considered as a cost cutting method. However it has been reviewed and recognized as an important part to contribute to the business as the supply market is constantly evolving with the fast increase in competition between companies. Purchasing development has been taken care of with the commitment resources includes a shift in focus from cost cutting to profit generating and an increased concern for supplier measurements in the apparel industry. (S. K. Jakhar 2012)

2.2 The definition of global sourcing

Over the last few decades the term Global Sourcing has been popular in international trade and plays a significant role in achieving competitiveness in global market (Ellram & Carr 1994, 9-18). The definition of global sourcing is simply the procurement strategy in which a business seeks worldwide to find the most cost-efficient location for manufacturing their product in order to achieve economies of scale.

The progression from domestic purchasing to international purchasing and then finally to global sourcing can be visualized as movement through five different levels from domestic purchasing => international purchasing when needed => international purchasing as part of a sourcing strategy => global sourcing strategies integrated worldwide locations => global sourcing strategies integrated worldwide and functional groups (Trent & Monczka 2003).

In many industries, sourcing is among the most important activities in the purchasing process especially in the apparel industry where various activities from

choosing suppliers to the procurement of materials occur (Dickerson 1999). Nowadays apparel companies in developed countries rarely make products in their home country due to high cost in manufacturing and labor but instead the actual garments are produced in developing ones. The finished products then will be imported and distributed by these apparel firms. There are many reasons why a firm start going global and sourcing but gaining economies of scales and enhancing product quality are among the biggest explanations. (Gereffi & Frederick 2010) In this thesis, the term sourcing will be viewed as the chain of garment production and discussed over the study. In the following sub chapter, the author will discuss about the advantages and disadvantages of global sourcing.

2.2.1 Advantages of global sourcing

There are many advantages when a firm starts overseas sourcing and one of the most important reasons is cheaper labor costs and raw materials lead to lower production price (Cho & Kang 2001, 542-544). Nowadays with the process of globalization and the financial crisis, companies are forced to seek ways to cutting down cost in product's price in order to improve profitability as customers care more about competitive price than product differentiation.

According to Cho and Kang (2001), in mature markets where there is little or no product differentiation; cost reduction provides a competitive advantage that foreign sources offer. The apparel industry is one of the most highly labor-intensive industries and wages constitute a large part of the production costs. Since wages are often significantly lower in developing countries than in mature markets, garments can be produced at rather lower cost hence generate more sales and profits for the companies. (Cho & Kang 2001, 545-548.)

Besides cost savings, plenty of studies have also identified quality and availability as critical aspects for global sourcing. According to Wisner, Tan and Leong (2011) the quality of overseas products might be better due to newer and better manufacturing technologies. In today's tough business environment, quality is the key for successful companies since customers pay more attention to product's

quality and they are willing to spend higher price for better products. Especially in apparel industry where fashion and brand names have major roles thus many companies are still importing products from European countries such as Spain, France, and Italy to satisfy picky customers (Nguyen 2010).

Availability and flexibility are among other driving factors when a firm decides to start sourcing also (Su & Gargeya 2011, 5). Many domestic buyers often rely on foreign sources due to the lack of product's capacity or because of domestic resource's limitation. According to Su and Gargeya (2011, 5-6), flexibilities and quick response time should be considered in supplier's evaluation process as these factors are often existed among the best supplier. In many cases, domestic suppliers are unable to meet up with the buyer's requirements on these important factors and will bring lost in profit and time to the company. Other minor advantages of global sourcing that can be listed are:

- Access to fresh research, design or specialized intellectual capital
 - Proximity to raw materials
 - Superior quality
 - Establishing presence in foreign market
- (Su & Gargeya 2011, 6-8)

2.2.2 Disadvantages of global sourcing

Besides the great benefits of Global Sourcing, international buyers also face an amount of risks and challenges that can affect the sourcing process dramatically if not considered carefully. Factors root in political, legal, cultural differences between countries and transportation as well as languages barriers, customs, currency fluctuations and trade regulations all contribute to the challenges of the sourcing implementation process. (Cho & Kang 2001, 549-555)

Unlike dealing with domestic suppliers, the costs involved in identifying, selecting and evaluating foreign suppliers can be unpredicted. If the supplier is in a distant location then custom clearance, transportation and other logistical issues may

render delivery time and add additional costs. (Wisner, Tan, & Leong 2011, 65-66)

According to Cho and Kang (2001) the transportation and logistics networks in the host country might not be as accurate and reliable which causes problems in delivery time. This brings difficulties to international buyers especially in apparel industry where products have short life cycle and may go out of styles very fast. The long distances will also complex the business's flexibility because the suppliers might not be able to response as quick as demanded. (Cho & Kang 2001, 555-560)

Based on Trent and Monczka (2003, 607-629) research, there are some hidden costs that firms should be aware of and calculate in the implementation plan to avoid these added up costs. These risks are as following:

- Quality risks: international suppliers might not be able to meet the standards and requirements of the company and can lead to loss in sales and brand's image
- Cost risks: risk of currency fluctuations and others maintaining costs when a company adopts global sourcing might be greater than expected.
- Intellectual Property Risk: the knowledge process of know-how can be lost if not managed careful in the sourcing process.

2.3 Strategic sourcing

Strategic sourcing is the term used to mention the evolutionary step of purchasing and procurement from the 1980s (Gattorna 1998, 285). With a wide and complex topic, strategic sourcing can be identified by Rudzki and Trent (2011, 145) as a rigorous process that involves substantial data gathering and evaluation with the purpose of selecting the most accurate supply strategy and the right supplier based on company's characteristics and requirements.

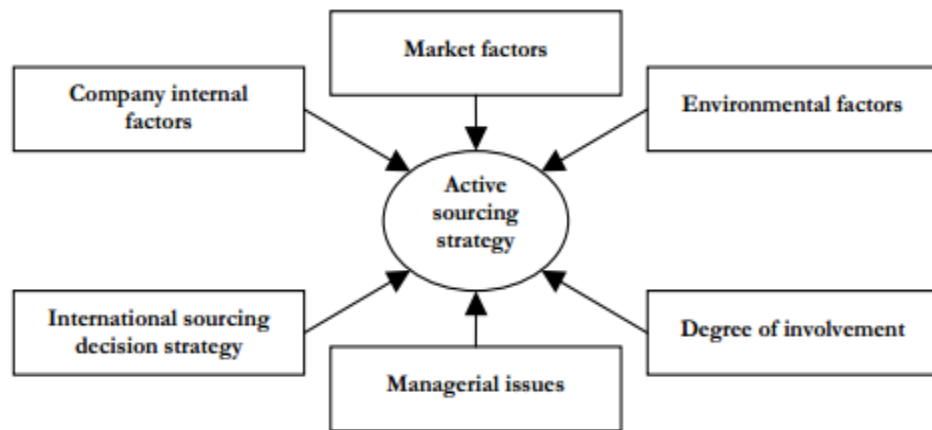


FIGURE 5. General framework on the development of global sourcing strategy (Rajagopa & Bernard 1994, 14)

Gattorna (1998, 285-286) suggested that strategic sourcing focuses on developing supply chain at the lowest total cost for company by concentrating most time and energy on strategic purchases that can provide benefits in quality or cost effectiveness. He also claimed that by sourcing strategically, the total cost of goods and services can be reduced more than 15 percent by decreasing the amount of suppliers which creates economies of scale and long-term relationships with them. This helps both parties to focus on increasing market share and improving market position.

For companies, in order to implement successfully global sourcing strategy they need to achieve congruency at the level of both managerial coordination and organizational structure degree and international sourcing facilitation. (Rajagopa & Bernard 1994, 15-16)

Sourcing strategically challenges many of the existing ideas about how purchasing processes in the organization, how suppliers are selected and how decisions are made concerning what to buy and from whom (Eriksson & Lerenius 2004, 36). When making a strategic sourcing plan, Eriksson and Lerenius (2004) suggested that company should ensure to get the highest value and most objective outcome as the purpose of the strategy. The process is time-consuming and firms should

expect to spend from three to six months on the process to make the best out of their resources (OSF global services, 2012).

2.3.1 The amount of supplier in strategic sourcing

The relationship between the company and suppliers are one of the most important factors to the stability of the firm. In recent years, development of a strong connection in communication cooperation with both parties is the objective of many successful companies. (Eriksson & Lerenius 2004, 39)

Supplier selection is a long search and evaluation process that requires time, effort and resources to find the most suitable suppliers based on each firm's criteria and situation. In strategic sourcing where price is not necessarily considered as the most important criteria, there are new more cooperative and independent selection standards are being used. (Eriksson & Lerenius 2004, 40-42)

Enarsson (2006, 84) suggested that there are three types of sourcing: sole sourcing, single sourcing and multiple sourcing. Each of these sourcing types is dependent on the purpose of the sourcing strategy. Sole sourcing occurs when only one supplier can be found for the specific needs for example only some particular Italian accessories are available from 1 Italian producer. Single sourcing is the decision of the firm after evaluate many suppliers and decide to use 1 vendor. In contrast multiple sourcing is the use of more than one supplier for an item. (Enarsson 2006, 84-86.)

Traditionally, companies find the needs of using multiple suppliers for a couple of reasons. First, it is important to assure of the supply chain and have a back-up plan if anything happens, the goods can still be delivered from other suppliers. Secondly it will encourage the competition between suppliers thus enhance their productivity, quality and service. Moreover the company is able to avoid dependence on single supplier and obtain more flexibility in the meantime. (Enarsson 2006, 85-87)

However, nowadays firms are more concentrating on strategic sourcing thus they are more careful when selecting supplier because the cost of maintaining multiple suppliers might be higher than the cheap manufacturing rate which the buyers were supposed to achieve. Enarsson (2006, 84) also pointed out that when suppliers proliferate, the amount purchased from each vendor decreases causing the buying firm to become less important customer to supplier and lose their purchasing power.

By trading with fewer suppliers, the apparel firm is able to keep a close relationship with each supplier and it improves the firm's negotiating position to buy more competitively. Being exclusive with one supplier enable firm to increase their product quality and value as the supplier becomes more co-operative and interested. However in order to maintain single sourcing relationship, both buyer and seller have to commit to long term partnership resulting in comprehensive contracts that provide incentives for suppliers. (Enarsson 2006, 85-86)

2.3.2 Criteria in supplier selection process

Before 2005, global apparel was affected by quotas and other trade restrictions, therefore, when a firm starts the process of choosing a new country for sourcing and suppliers, low production cost and available quotas are the critical requirements. However in recent years the trade barriers and tariff systems have been freed in many countries brought opportunities for buyers to choose among many countries and suppliers with not only lower price but also with other different criteria in consideration. (Kin & Man 2008)

Supplier selection decisions are complicated by the fact that it is influenced by various criteria and conditions in the decision making process and each company has their own requirements. In this chapter, basic and crucial principles for choosing supplier in the apparel industry will be listed and discussed based on the criteria developed by Subhani and Osman (2010). The author will give an insight of the selecting and evaluating suppliers in the sourcing process therefore the factors

include Delivery, Flexibility, Cost, Quality and Reliability will be argued and used later on to explore Vietnamese textile and garment industry.

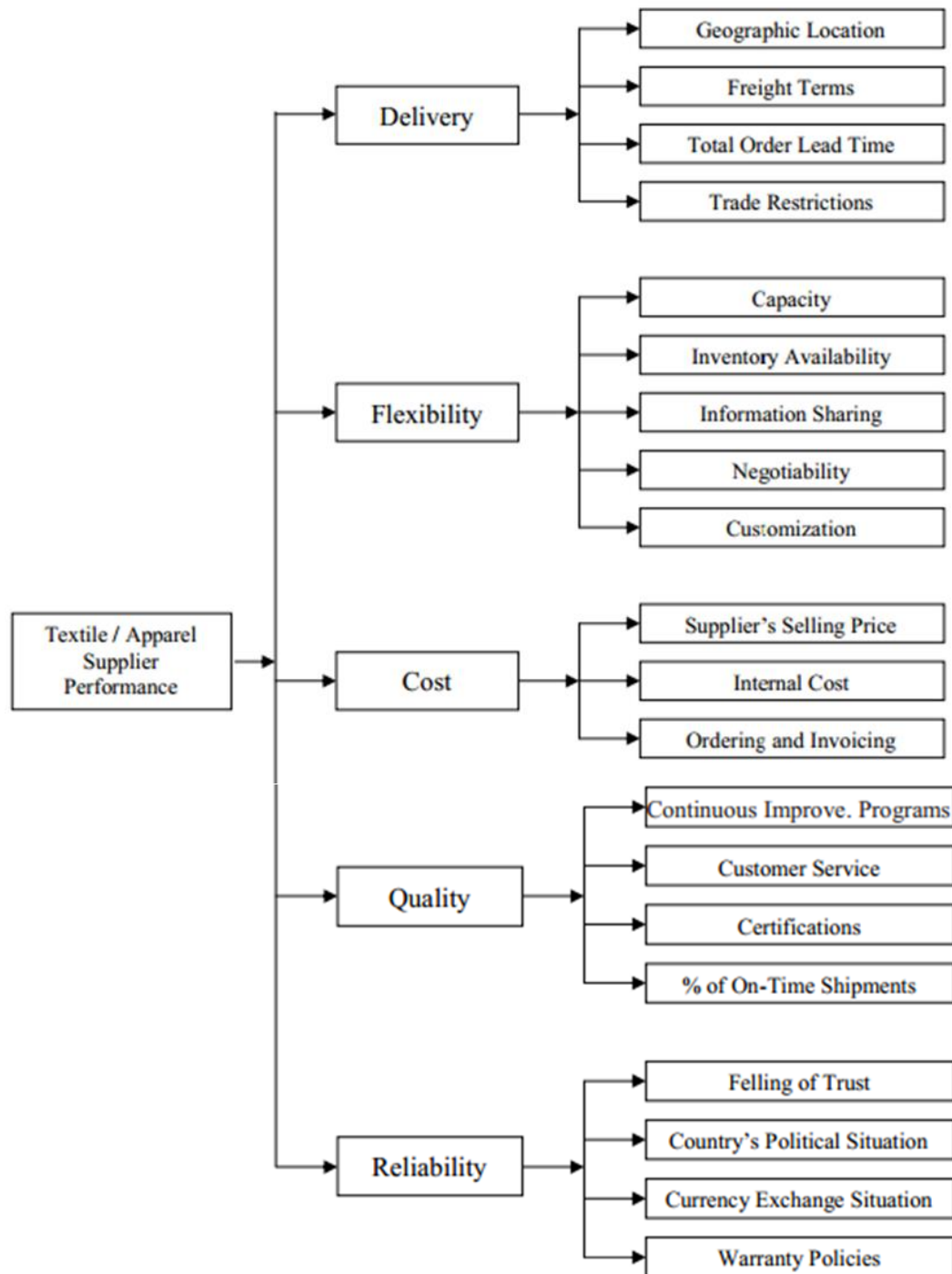


FIGURE 6. Criteria in supplier selection (Subhani & Osman, 2010)

The supplier selection decision-making is usually long and complicated as discussed earlier and the selection criteria's analysis has been studied by various scholars through the years. Dickson (1966) also pointed out in his study of 23 important criteria in the process and according to him the most significant ones are the "quality" of the product, the "on time delivery", the "net price" (including discount and freight charges) and "production capacity & location". Reliability and flexibility are the 2 new important entrants into the list of critical success factor for supplier selection in recent years and will be deliberated more in details with other traditional factors in the following sub-chapters.

Delivery factor

Delivery has a strong impact on the sourcing strategy especially in the apparel industry which features short life-cycle products. Consequently, delivery time from the origin to destination countries is crucial for the business. The delivery time is counted as the total time that is needed from ordering to production process and shipment (Kin & Man 2008, 154-155). Inefficiencies in production, transportation and flow of information between involved supply chain parties might have negative consequence on this factor (Subhani & Osman 2010, 8). Other factors include geographic location of the supplier and buyer, freight terms and trade restrictions.

Generally the location between supplier and buyer influences the delivery time as it can take months for shipping from Asia to Europe and the US. However with the features of the market and the high demand from customers, manufacturers have to boost up their delivery schedule but still maintain quality and price. (Kin & Man 2008, 154-155.)

Freight terms and trade restrictions are other major elements in the delivery cluster as it can lengthen the transport time with all the tariffs and limitations. Company should consider this seriously in the analyze process for non-WTO countries as they are under the quotas-restriction thus will make the sourcing process longer and harder. In contrast there are trade agreements between countries that allow

duty free and quota free access such as European Union, ASEAN and other trade organizations give suppliers from these countries competitive advantage over others. (Mcnamara 2008, 6)

Flexibility factor

In a supply chain, the suppliers' flexibility is considered a tool to cope with the environmental uncertainties and the changing of market demand. Lee (2004) defined flexibility as the possibility to respond to short term changes in demand or supply situations of other external disruptions together with the adaptability in the new environment.

Subhani and Osman (2010) argued that a firm should examine capacity, inventory availability, information sharing, negotiability and customization components in the supplier's flexibility. Flexible suppliers are capable of supplying other jobs when needed in addition to their original tasks. It is expected that supplier's flexibility be operated more expressively through better control of the supply chain thus gaining competitive advantage over rivals companies.

Flexibility in manufacturing is not prior limited to machine flexibility but requires more changes in the supplier's production capacity and inventory availability as the uncertain and constantly changing nature of the market requires a supplier who has a flexible supply chain production system (Mentzer 2004, 127-128). The capacity factor of the supplier should be measured in order to certify supplier's ability to provide the products with the right quality and quantity. It is also advised for firms that they should look for suppliers who are willing to negotiable with suitable conditions and able to offer product's customization as many apparel brands require their products to be unique and handled carefully.

Cost factor

Cost factor is one of the most important elements that influence strongly the face of the world of apparel production's flow nowadays as the purpose of global sourcing is to obtain the maximum benefits for the company by cheaper product price. According to Subhani and Osman (2010), the cost includes supplier's selling cost, internal cost and the charge for invoicing and ordering however features such as labor and materials cost needed to be concerned as well.

Conventionally the supplier's asking price is depends heavily on the labor and materials rate in their country as the labor can account for up to 50-60% of the production cost (Subhani & Osman 2010, 8). So suppliers from countries which have cheaper labor rate have bigger advantage than other. An example of this case is China - the world's biggest manufacturer who is losing its edge over South and South East Asian countries due to the rapidly rising cost of the nation. According to BBC (2011) minimum wage levels in China are now four times greater than other surrounding countries along with rising inflation force firms to switch production to seek for lower cost.

Materials input cost is also a key factor in the seller's final price as the price for raw fabric varies among countries. China for example has successfully set up a good base of textile manufacturer in order to provide not only enough raw materials for the country's needs but also for exporting. Therefore the obtained price for materials in China is lower than other countries that depend heavily in imported supplies. (Navarro 2009)

In the sourcing process, the internal cost of the corporation cannot be ignored as in some cases with an underestimate strategy, it charges more than the profits of the cheap products price. In order to source globally, firms need to achieve senior management level with a good personnel support in every department that gets involved in the process and have budgeted for all additional activities such as travelling, testing, communication and international administration (Robi Bendorf 2001). If company establishes based country offices, the cost for maintaining and

administration would be enormous along with complicated paperwork vary among countries.

The cost for ordering and invoicing should also be taken into consideration even though they don't appear to be very important. However, the process is time-consuming and complicated as according to Gomez (2000) a business that sends 450 invoices per month incurs an annual cost of approximately \$45,000 for ordering and invoicing, in which \$41,000 is labor cost. Nowadays a majority of international firms have switch to online services for such activities for faster and more profitable business.

When making sourcing decisions, a company has to analyze carefully all the hidden cost as discussed earlier besides these factors that are listed above to ensure a successful sourcing plan.

Quality factor

There is no doubt that quality is one of the most fundamental factors to evaluate when choosing a new supplier as the price is now considered to be overwhelmed by the product's quality (Langley 2008, 518). Poor quality product can have major impact on the company's downstream sector as it causes higher rate of returns by unsatisfied customers, the cost of inventory, profit margins and business's reputation etc.

Different apparel suppliers provide perspective of different product quality as it differs among suppliers and sourcing countries. Big suppliers from countries which are in the upstream sector usually have modern technologies and machineries that can produce detailed and high quality products. The access to technologies and acquire of certification are the criteria company should look for in suppliers. It is not only the guarantee of product's quality but also a statement of supplier's knowledge in international trade including all the paperwork and improvement of management (Anderson 2010).

A continuous improvement program, customer service and the percentage of on-time shipment as well as workmanship all contribute to the final product's quality produced by the vendors. Skilled workers are obviously essential for making quality goods hence suppliers who have training and continuous improve plans are highly appreciated. With a constantly improvement program, suppliers have the ability to adapt the newest technologies and trends as well as increase their efficiency and management therefore able to offer the best product's quality to the buyers (Subhani & Osman 2010, 13-14).

Customer service and other minor factors such as percentage of on-time shipment are evidence of a good supplier with a professional attitude as they try their best to please the buyers and willingness to offer benefits. In some cases, suppliers do not respond for potential buyer's email or phone call as they lack of professional working's skills and communication's abilities which result in bad business that might not be able to produce valued products.

Reliability factor

The reliability cluster needs to be judged under external and internal factors in which trust and warranty policies are considered to be internal whereas the sourcing country's political and currency exchange situation are external factors (Subhani & Osman 2010, 16).

Feeling of trust differs from supplier to supplier in every country and can be measured by the quality and on time delivery of the vendor. Generally supplier who has long term partnership and experience in international trade will be more reliable. Warranty policies are different among suppliers as well however it still needs to be in the standard terms otherwise buyer should reconsider these suppliers. (Lee 2004)

External factors that involve the sourcing country's situation are often harder to forecast as it is constantly changing. These factors are extremely important as it has direct influence on suppliers and sourcing process hence the decision-making

itself. Political and economic instability in the sourcing country can lead to serious damage of the business with the hidden cost for higher management rate, late delivery and losing economic advantages due to the uncertainty of exchange rate. Companies in the countries with revaluated currencies found their products less competitive in international markets therefore international buyers might want to analyze carefully before choosing suppliers in these countries. (Subhani & Osman 2010, 16-17)

Chapter 2 ends with the criteria in supplier selection process to conclude the theoretical part of the study. Following is chapter 3 opening the empirical part with information about Vietnam and the country's garment-textile industry.

3 VIETNAMESE GARMENT AND TEXTILE MARKET

3.1 Country overview

Vietnam is a one-party Communist country located in Southeast Asia, bordering the Gulf of Tonkin, Gulf of Thailand and South China Sea. With one of the fastest growing economies in the region, Vietnam has been expected to become a developed nation by 2020. (BBC 2013)

Vietnamese history is filled with struggle and wars with many nations and finally it became independent on April 1975. The political and economic reforms (Doi Moi) launched in 1986 have transformed Vietnam from one of the poorest countries in the world, with per capital income below \$100, to a lower middle income country within a quarter of a century with per capita income of \$1,130 by the end of 2010. The characteristic of the economic reforms is a 'market-economy with socialist orientation' which has been success so far with the ratio of population in poverty has fallen from 58 percent in 1993 to 14.5 percent in 2008, and most indicators of welfare have improved. (worldbank 2012)

Over the last decades, Vietnam's politics and society have gradually evolved towards greater openness and space for civil participation, however, the ruling Communist Party shows little willingness to give up its monopoly on political power (BBC 2013).

After the launch of economic reform, Vietnam has witnessed stunning development with supportive government's policies to attract foreign investment and nowadays it has become a major manufacturing center in the surrounding region. United States is the main trading partner of Vietnam in many industries especially apparel as it became the second biggest garment supplier to the US. (BBC 2013)

Table 1 below shows some key figures of the country. According to statistics, Vietnam has a young population with the labor force accounts to nearly half of it.

With unemployment rate of only 3.6% in 2011, Vietnam's economy is considered rather stable during the financial crisis (worldbank 2012).

TABLE 1. Vietnam's statistic 2011 (CIA 2012)

Official name	Social republic of Vietnam
Capital	Hanoi
GDP	\$120.8 billion
GDP growth rate	5,9%
Exports	\$96.91 billion
Imports	\$97.36 billion
Population	90.549.390 (2011 est)
Labor force	48.23 million
Unemployment rate	3.6%
Investment	34.6% GDP
Public debt	48.8% GDP
Budget	Revenues: \$34.09 billion Expenditure \$37.24 billion

Vietnam's market is dominated by state-owned enterprises; however, the nation is committed to moving towards a liberalization and internationalization market giving more business opportunities for the private sector. Since joining the WTO in 2007 after liberalizing trade, Vietnam has registered export growth in the order of 18 percent per year on average (HSBC 2012). Export growth has even been outpacing GDP growth, which has stood at 7.3 percent on average for the same period. As a result, total Vietnamese exports are now worth over 70 percent of GDP and 77 percent of firm revenue (HSBC 2012).

According to the General Statistics Office, in 2012 Vietnam has achieved a trade surplus of 284 million USD after 20 years of running in a deficit. Export turnover for the year total 114.631 billion USD, an increase of 18.3 percent over last year

while import revenue reached 114.347 billion USD, representing a rise of 7.1 percent. The trade surplus was attributed to the high growth rate of exports, which nearly doubled the goal set by the National Assembly, while import growth rate was three times lower. (GSO 2012) Figure 6 shows the international trade of Vietnam from 2009 to 2012 presents the import-export growth and trade deficit.

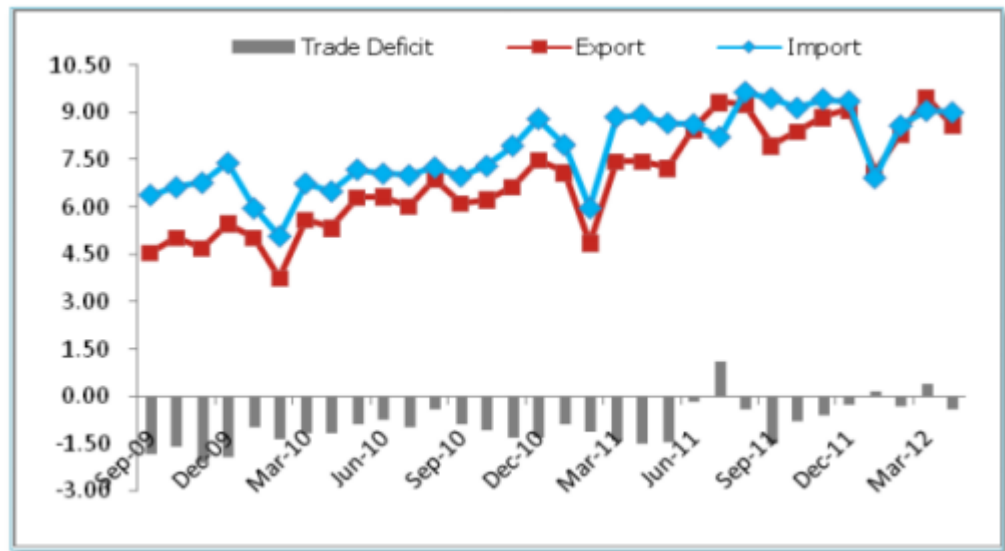


FIGURE7. Vietnam's international trade 2012 (Research 2012)

The main export products of Vietnam include crude oil, textile and garment, rice, coffee, rubber, coal, aquaculture and processed forest products. Due to the nature of low developed manufacturing, the products originally from Vietnam are often raw and simple materials that have relatively cheap prices because of low labor cost. One significant reason contributed to the trade deficit of Vietnamese economy through years is highly dependent of imported machinery, high technology goods and raw materials such as petroleum products, steel, fertilizer, electronics, machinery and equipment. (economywatch 2012) The following figure shows the value-added of Vietnam's exports compare with other ASEAN economies and China.

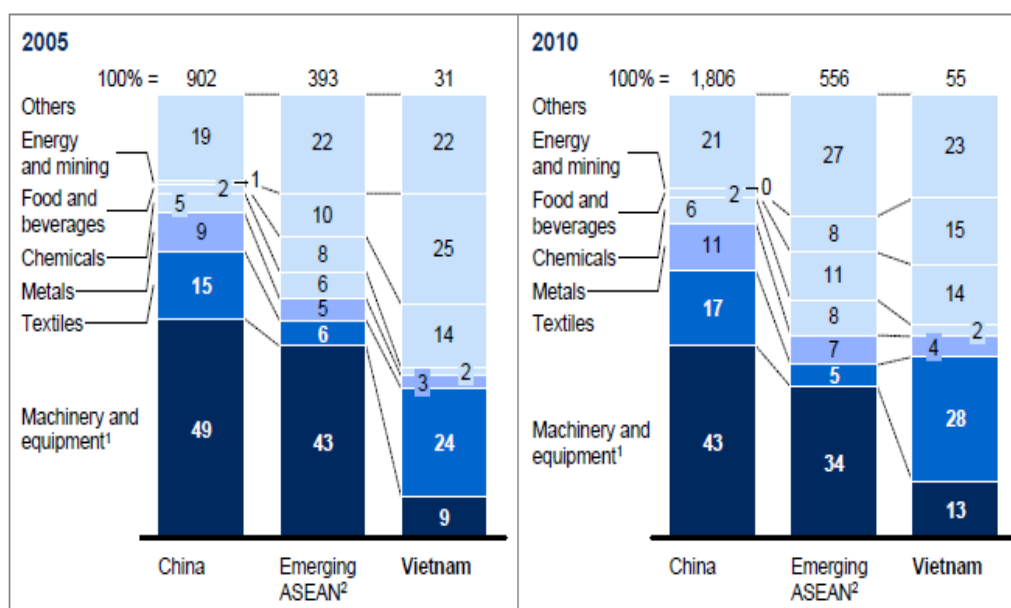


FIGURE 8. Vietnam's exports are concentrated in low-value-added products compare with ASEAN countries. %; \$ billion. (McKinsey&Company 2012).

The emerging ASEAN countries include Indonesia, Malaysia, the Philippines and Thailand (McKinsey&Company, 2012). As can be seen from figure 8, Vietnam's export value is rather low and products mainly concentrated on low-value-added products such as mining industry, food and beverages, garment and textile manufacturing. Machinery and equipment products belong to high-value-added goods and clearly Vietnam is running low on this sector compared to other countries in the region.

Currently, the major trading partners of Vietnam are the United States, European Union, Japan, Singapore, Hong Kong, China, Taiwan and Korea. 80 percent of total trade is with surrounding Asian countries (economywatch 2010). According to Hawksworth and Cookson (2008), with a high ranking of attractive emerging economy, Vietnam is seen to have great potential as inward investment locations for manufacturing in particular and will achieve more success in near future. However they also pointed out that Vietnamese economy still have many difficulties that need to be solved such as the weak and inefficient hierarchy legal systems along with complicated paperwork as well as economic factors including high inflation rates and currency fluctuation.

3.2 Vietnam's garment-textile industry overview

As a result of the new economic reform in 1986 along with the stunning development of Vietnam's economy, the textile-garment industry has been receiving full support from the government and it quickly has become one of the 10 biggest garment suppliers of the world. With garment export valued at 15.8 billion USD in 2012, increased by 12% compare to 2011 and is expected to reach the target of 18.8-19.3 billion USD this year; ranking number 2 in Vietnam's total export revenue and bringing a major source of foreign exchange as well as contributing significantly to the country's GDP. (Thuongmai 2013)

With a fast and sustainable growth over the past decades, the Vietnamese garment and textile industry has played an important role in national socio-economic development especially in term of employment as it creates jobs for 2.2 million workers every year (Vietnam trade promotion agency 2012). After joining the WTO in 2007, Vietnam received equal treatments and benefits in trade and commerce as other partners and had the opportunities to quota-free access the major competitive consuming markets in the world (Nadvi 2003). The result of the join is impressive as garment-textile sector is the only one of the whole nations industries that can maintain its growth and export earnings during the financial crisis recently (Thuongmai 2013).

While Vietnam's garment-textile export growth has been impressive, the industry is facing challenges coming from the domestic sector, mostly due to serious labor shortages and rapidly rising wage rates. Apparently only suppliers with successful business and product upgrading were able to gain more orders and afford for higher wages whereas smaller and less successful companies struggled with seeking for new orders and facing problems with prices and retaining workers. (Goto 2012)

Given the current trend of economic globalization and integration of countries around the world, the competition is stiff in gaining market share. Vietnam (and other developing countries) has to cope with many difficulties: it is currently less developed in terms of machinery and equipment, technology and labor skills. Oth-

er difficulties are the high inflation and unstable economic growth (McKinsey&Company 2012). Besides this, labor costs are becoming more competitive. There are many workers in this sector, so companies compete with each other to get (the best) workers. On the other side, it could be possible that in the future labor cost is getting less important when there is more demand for technical skills. However, nowadays economies of scale play an important role in all of these activities. (Goto 2012)

The global apparel industry has been marked with substantial country specialization in recent decades of which the higher income nations are likely to dominate in capital intensive sectors while the lower ones concentrate on labor intensive segments (Kilduff & Chi 2006).

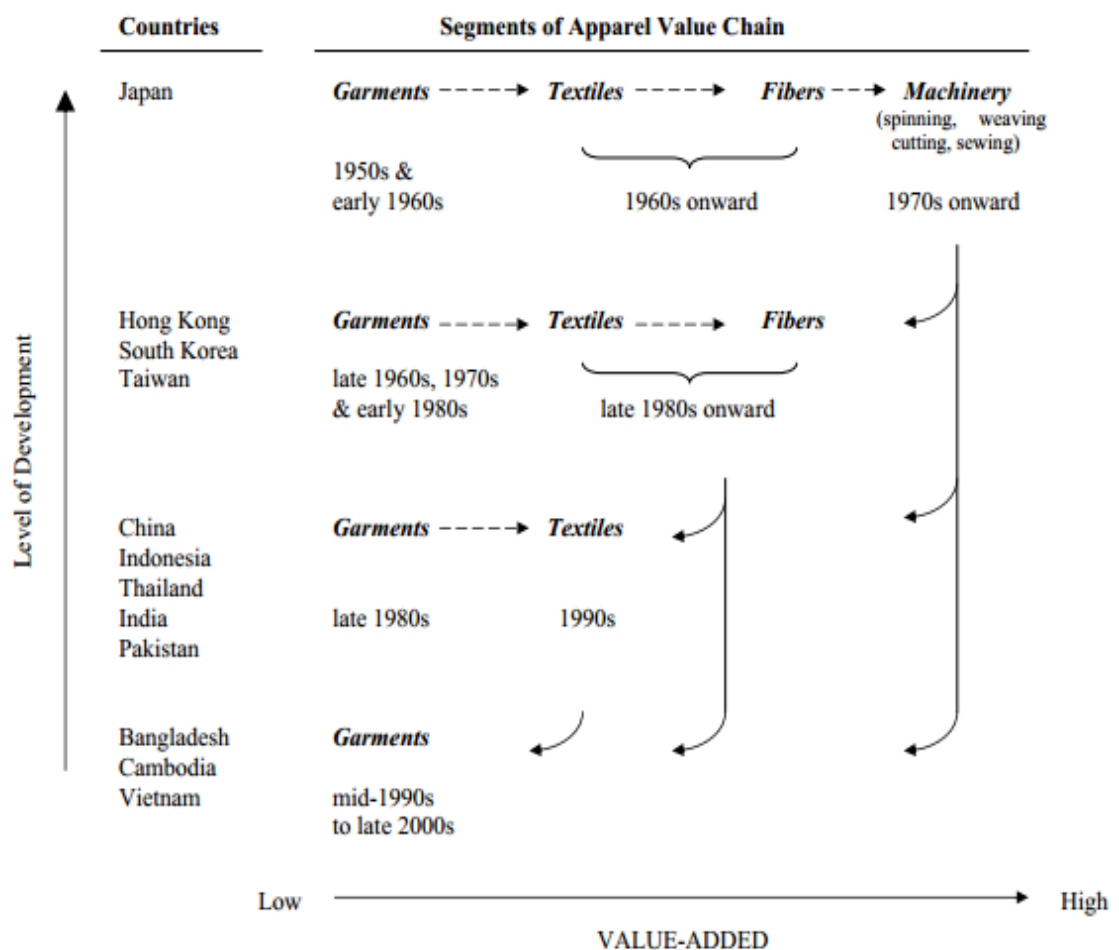


FIGURE 9. Countries development in Asia's apparel value chain

Figure 9 presents the different levels of development in the apparel value chain with selected Asian countries and how it is shaped by the presence of the industry. According to Gereffi and Memedovic (2003), the most labor-intensive activities are garment and textile production which locate in the middle and bottom of the vertical axis in figure 9. The countries in the figure are grouped by their relative level of development with Japan at the top, followed by China and India and the last are least developed exporters including Vietnam. The main sectors in the apparel industry are listed in the horizontal axis which reflects the levels of value-added difference between countries. Traditionally countries that are in the garment production stage have the lowest value-added percentage. As can be seen from figure 9, Vietnam along with Cambodia and Bangladesh are in the bottom of the value chain and using labor intensive mostly to produce apparel production therefore the value-added proportions are rather low. Vietnam's apparel industry is shifting to textile productions step by step considering the demand of the industry itself (Goto 2012).

Most Vietnamese apparel producers only offer cut-make-trim (CMT) which is the most basic form of garment manufacture providing assembly process of cutting, sewing and trimming according to the buyer's orders. Other jobs involve materials, patterns, designs and specifications belong to the buying firms. Therefore CMT is labor-intensive service and Vietnamese suppliers have been enjoying the benefits of cheap labor force through years. (Goto 2012)

According to Nadvi and Thoburn (Nadvi, 2003, 11), CMT rates for men's shirts in Vietnam were roughly from US\$ 0.60 to 0.90 per piece, of which 50-60 percent was labor cost. The garment sector in Vietnam is trying to slowly move from CMT to FOB production as a way of process upgrading in the industry. In order to offer FOB services or full package arrangements, Vietnamese suppliers need to develop their management skills since they have to take care of all the production process from making patterns to obtaining fabric. Under FOB (Free On Board), the garment firm is responsible for buying raw materials which is counted to be between 50-80% of the final FOB price. Their ability to do so is conditioned by the quality and price of domestically produced fabrics available in Vietnam, largely from the SOEs (Stated Owned Enterprises) and FDI (Foreign Direct Invest-

ment) sector, and their ability to source fabrics from abroad on a regular, reliable and cost-efficient basis. The quality and situation of domestic produced fabrics and materials from Vietnam will be discussed later in sub-chapter 3.2.3.

3.2.1 Vietnam's apparel industry structure

With more than 3800 companies contributing majorly to the Vietnamese economy, the garment and textile industry is currently holding the position of leading export sector, employing more than 2 million people. The SOEs make up only 0.5% of the industry whereas 75% are joint stock or limited company and private, which take up the biggest share in total. (Textile world 2012)

Over recent years of development, the garment-textile industry has witnessed structural changes in ownership which is shown in table 2 below, which describes the compositional change of output based on the different ownership categories of SOEs, non SOEs (collective enterprises, private enterprises and household) and foreign invested companies. In 1995 most of exported products were produced by SOEs and presented more than one third of the total output. (Goto 2012)

TABLE 2. Output based on ownership (billion VND) (Statistical Yearbook of Vietnam 2011)

	1995	2000	2005	2006	2007	2008	2009	2010
Output (Total, garment industry)	2,950	6,042	15,354	19,166	22,776	27,206	29,146	32,768
SOEs	1,025	1,926	3,823	3,939	3,001	2,723	2,422	2,425
	34.8%	31.9%	24.9%	20.6%	13.2%	10.0%	8.3%	7.4%
Non-SOEs	1,389	2,616	5,873	7,744	10,174	12,328	12,519	12,545
	47.1%	43.3%	38.2%	40.4%	44.7%	45.3%	43.0%	38.3%
Collective enterprises (<i>kinh te tap the</i>)	9	45	69	59	60	74	39	39
	0.3%	0.7%	0.4%	0.3%	0.3%	0.3%	0.1%	0.1%
Private (2) (<i>kinh te tu nhan</i>)	327	1,056	3,398	4,893	6,849	8,656	8,372	8,393
	11.1%	17.5%	22.1%	25.5%	30.1%	31.8%	28.7%	25.6%
Household (<i>kinh te ca the</i>)	1,053	1,516	2,406	2,792	3,265	3,598	4,109	4,114
	35.7%	25.1%	15.7%	14.6%	14.3%	13.2%	14.1%	12.6%
Foreign invested	536	1,500	5,658	7,483	9,601	12,155	14,204	17,798
	18.2%	24.8%	36.9%	39.0%	42.2%	44.7%	48.7%	54.3%

In 2010 foreign invested companies (54,3%) and private companies (25,6%) have gained perspective shares and become more important in the sector as SOEs plays a smaller role. However a high amount of SOEs have been privatized as part of government's plan and play dominant roles in export sector with a less complicated decision-making process (EU Commercial Counsellors Report on Vietnam 2009).

SOEs are generally large in size with abundant resources and highly equipped technologies thus currently holding the key connections to export garment products with their tight strings to the government. Vietnam's biggest state-owned corporation - 'The Vietnam National Textile and Garment Group' (VINATEX) has 120 members all over the country, account for 9% Vietnamese textile and apparel industry's total labor force and 18 percent of total exports. (Textile world 2012)

Private companies on the other hand are often quite small in terms of size and capacities due to the lack of financial resources and technologies as well as machinery for larger quantities of orders (Goto 2012). Those smaller companies also are in need of direct contacts with foreign buyers as international firms usually go with government trade organization such as VINATEX, VIETTRADE, VITAS (Vietnam Textile and Apparel Association) etc. Which have complicated hierarchy management levels and long decision making process. These organizations however sign the deals then often subcontract it to SOEs and private companies. (Schaumburg-Müller 2009)

3.2.2 Export situation of Vietnamese garment-textile products

Since the accession to WTO along with signing of numerous trade agreements, the Vietnamese textile and garment industry has gained impressive achievements and is currently the second largest textile supplier to the US market, the third to Japan and the fifth to the EU. In addition to promoting and expanding the export market, Vietnam has succeeded in attracting FDI-invested projects in the textile industry. (Vietnam Textile and Apparel Portal 2012)

As shown in table 3, the US is the biggest partner of Vietnam's garment-textile sector with almost \$US 7,5 billion export value in 2012. The EU and Japan are second and third biggest importers with \$US 2,5 billion and \$US 1,68 billion worth of export's value in 2011 .

TABLE 3. Vietnamese apparel industry export value to markets 2012 (vietnamtextile 2012)

Market	Value 2012(\$US million)	Growth rate compare to 2011(%)	Market	Value 2012(\$US million)	Growth rate compare to 2011(%)
USA	7.428	8,44	Japan	1958	16,83
German	536	-8.68	England	451	-0.14
China	239	19.25	France	173	-14,33
Hongkong	102	32,66	Denmark	115	15,58
Finland	7,4	-43,73	Sweden	50,7	-25,42

As can be seen in figure 10 below, Vietnam's textile and garment export value has been constantly growing over the years. Since 2000, the industry has achieved an annual growth rate of 20% and generated 2 million jobs, contributing significantly to the country's total export turnover (Statistical Yearbook of Vietnam 2011).

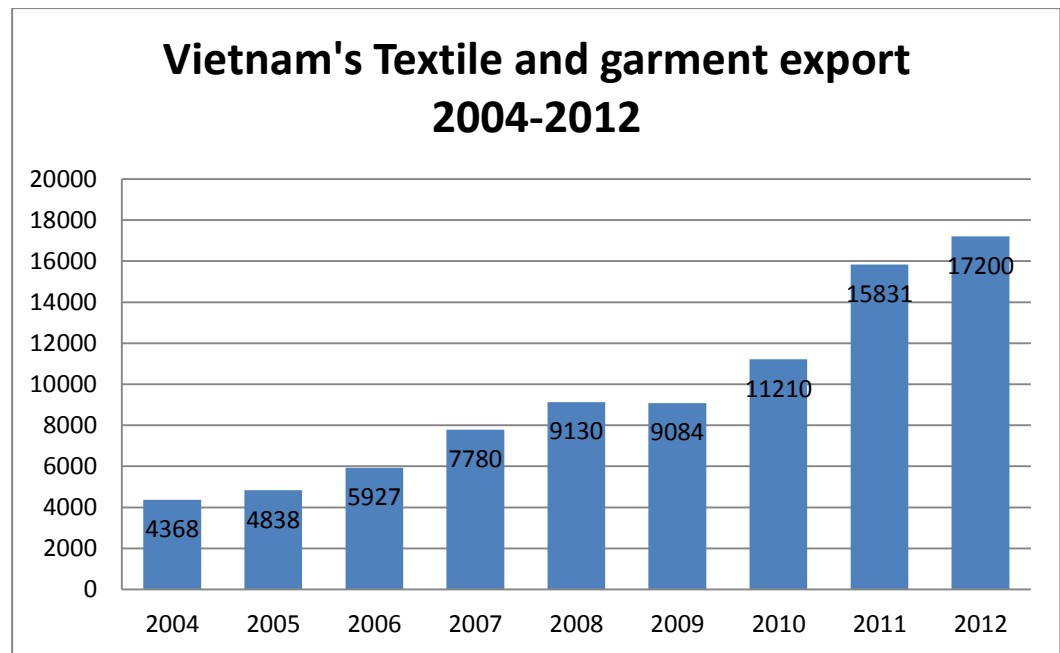


FIGURE 10. Vietnam's textile and garment export value from 2004-2012 \$US million. (vietnamtextile 2012)

During the financial crisis, Vietnam's garment-textile industry has managed to maintain its value, volume and market share extremely well. According to Gereffi and Frederick (2010, 7) Vietnam along with China, Bangladesh, India, and Cambodia; Pakistan and Egypt as well but with smaller market shares are categorized under 'Steady Growth Suppliers'-over all increasing market share since the early 1990s.

However, compared to China, India, Indonesia and other exporters in the region; the growth rate of Vietnam's garment-textile sector is considered low in terms of volume and quality. This is mostly due to the fact that the industry itself is unable to produce enough raw materials thus heavily dependence on foreign importers (Gereffi & Frederick 2010). This particular issue will be discussed later in the next chapter.

3.2.3 Domestic production situation and development plan

Annually the industry consumes about 400,000 mt of cotton with 35 percent of that total imported from China, 32 percent from India and 19 percent from South Africa (Textile world 2012). From the recent data, it is clearly stated that Vietnam is highly dependent on imported raw materials and can only produce about 17% of the demanded cotton. The domestic production capacity is rather low both in terms of quantity and quality compared to other surrounding countries. Time and investment in technologies, machineries, management skills are required for Vietnam's apparel industry to fulfill the demand from the manufacturing itself.

Nadvi and Thoburn (2003) also stated in their study that the local Vietnam's textile industry is unable to meet the various demands of foreign buyers for specific fabric construction, design and quality at a competitive price. They argued that the textile-garment industry in Vietnam is still underdeveloped with limitations in supplying high quality fabric and accessories. The industry itself is unable to provide needed raw materials for the manufacturers leading to major import from other countries. This situation is the main reason for the low-value-added proportions in Vietnamese apparel industry.

Regarding the quality of textile production, complaints about the local fabrics are common among garment exporters (Nadvi 2003, 16). The quality of Vietnamese garment workmanship is considered high by international buyers however many of their products require sophisticated and functional fabrics which are unavailable locally (Goto 2012).

However, according to Nadvi's & Thoburn's research (2003), the quality and capacity of Vietnamese textiles and fabrics have increased very quickly since the government is focusing more in the sector. With an ambitious target plan, they have planned an investment estimated to total approximately \$25 billion in 2020 (See table 4). A complete infrastructure is planned for the industrial areas, including traffic systems, power and water supply, drainage and wastewater treatment centers. (Textile world 2012)

Table 4 shows the government's strategic plans for the domestic productions of fabric and fiber with the target of increasing domestic inputs up to 70 percent of total materials needed by 2020.

TABLE 4. Strategies of Vietnamese textile & garment industry 2015-2020 (\$US billion) (Textile world 2012)

Strategies	2015	2020
Turnover	18-21 bil. USD	27-30
Export Revenue	14-16	20-22
Labor	3.5 mil	4.5 mil
Fabric Production	1500 thousand tons	2000 thousand tons
Fiber Production	500 thousand tons	650 thousand tons
Localization	60%	70%

In order to achieve these targets, the government has planned to extend the industrial area for textiles and garment production to increase significantly the availability of fabrics for Vietnamese garment producers (Thuongmai 2013).

The Vietnamese government also encourages foreign investments in the apparel industry as the country is seeking to strengthen its competitive position in international markets along with other contributing factors including low labor costs and a stable political environment.

4 CASE STUDY: LINDSTRÖM OY AND THE SUPPLIER SELECTION PROCESS

The empirical part of the thesis is designed for a Finnish textile service company, Lindström group. Established in 1848, the company is one of the oldest existing ones in Finland which offers mat, hygiene, towel, workwear, restaurant textile, personal protective equipment and corporate gift services. Currently employing over 2500 people in Europe and Asia and has subsidiaries in 20 countries, the group turnover in 2011 was €262 million which made it hold the first position in the sector in Finland. (Lindstrom Group 2013)

Through constant development, the company found the need to have other sourcing locations and Vietnam was chosen to be the next potential target. Under this chapter the information about the company, products, company's strategy and criteria for sourcing target will be given and analyzed.

4.1 Company analysis

Founded over 160 years ago by Carl August Lindström in Helsinki as a textile dye house, the company has operated in the laundry business and from there to a professional textile service provider, Lindström has always been able to develop and maintain its image as a pioneer in the sector. The information below is taken from the company report, interview and the author's own observations.

Values

Lindström indicates their shared values as profitable growth, long standing customer relationships, responsibility as well as enthusiasm and the joy of learning. Every project support the company's benefit with the right decision based on a long term process. The firm values their relationship with customers and suppliers to ensure mutual benefits and success. (Lindstromgroup 2011, 6-8)

The company stresses the importance of corporate responsibility as one of their assets. Nowadays when sustainable purchasing plays a crucial role in public's

view, the firm indicates that they take into account the financial, social and environmental influences of its own and always act as a responsible corporate and employer (Pyhältö 2012).

Services

Lindström concentrates on providing corporate textile services which offer customers a comprehensive package from analyzing customer needs to designing, delivering new and collecting used textiles from customer premises, textile care and disposal of worn-out textiles (Lindstromgroup 2011, 8). In Finland products made by Lindström have high quality and being widely used in many corporates as well as public places (Pyhältö 2012).

In general the services provided by Lindström include:

- Workwear services (available in all operational countries)
 - Mat services (available in 13 European subsidiaries)
 - Personal protective equipment services (available in Finland and Hungary)
 - Hygiene services
 - Restaurant textile services
 - Shop towel services
 - Promotional product services (deliveries worldwide)
- (Lindstromgroup 2011, 9)

In this study, only workwear is considered the targeted products and analyzed.

Structure and Organization

In 2012, Lindström has operated their services in a total of 21 countries in both continents with 22 subsidiaries in addition to the parent company Lindström Oy and Comforta Oy who also has subsidiaries Comforta AB in Sweden and Quickly Tvättcentral Ab in the Åland Islands (Lindstromgroup 2011, 10).

At the end of 2011, Lindström has 68 offices or service centers and sales office throughout its operating area. All the subsidiaries as well as business centers in Finland use the services and support of seven administrative competence centers located in group headquarters in Helsinki, Finland. (Lindstromgroup 2011, 10-11.) The administrative competence centers are:

- Finance and Reporting
- Human Resources
- Investments, Process development and Environmental Issues
- IT
- Purchasing and Logistics
- Quality, and
- Communications and Customer Relationship Management

Figure 11 presents the structure of the group's organization.

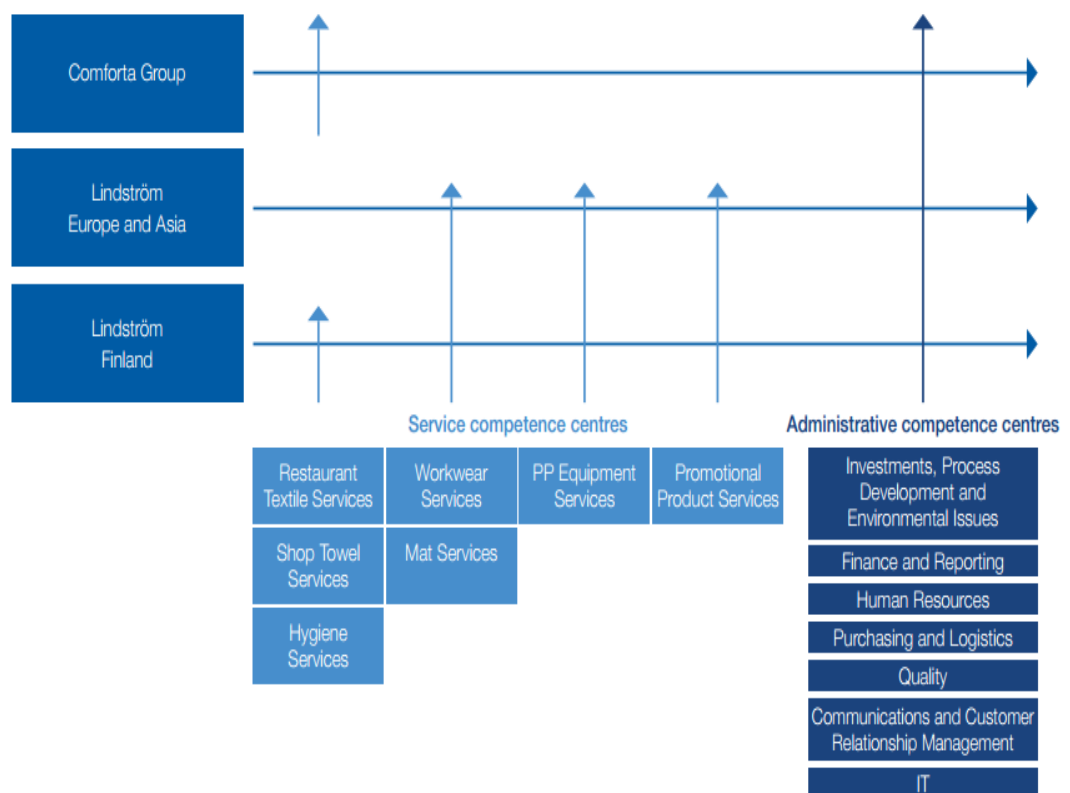


FIGURE 11. Lindström's organization structure

The headquarters of the firm is situated in Helsinki, Finland with another 20 offices under Lindström name. The operational activities of the company are managed by regional organizations which are divided into Finland, the rest of Europe and Asia. (Lindstromgroup 2011, 11)

4.2 Product analysis

As stated earlier, this study will focus on exploring the potential supply market of Vietnam to the Case Company with certain products, which according to the firm's request, is workwear service. In this sub-chapter the information of the targeted product will be given and analyzed for the readers to get a better overview of the company and product.

The workwear service that Lindström Oy offers is considered to be unique as they cover the entire lifecycle of clothing from purchasing, fittings and customization to laundry, maintenance, storage and replacement (Lindstrom Group 2013). The products have high quality and stylish for various working fields as Lindstrom pays attention to fit, comfort and durable Scandinavian design. The range of products includes "Ready-made workwear collections" and "Tailor-made workwear collections" however this study will focus on analyzing the first collections. (Lindstromgroup 2011, 5-6.)

For the "Ready-made workwear collections", Lindström offers durable and well-fitting shirts, trousers, jackets and overalls as well as special garments and protective clothing for various working fields. The customer can choose their own garment material from the collections and is able to receive the first order as fast as 2 weeks. Product's examples are presented in pictures below.



FIGURE12. Product's samples

In Finland, the workwear products that Lindström offers have been used widely in many companies and industries. In international trade the biggest markets for them include Russia, Hungary, Belarus and other Eastern European countries. Mature and competitive market such as United Kingdom, Germany and France are not the targeted countries for the firm. (Pyhältö 2012)

Currently the firm has been sourcing from China and India for workwear products for a long time and as established an office in China. Generally the suppliers are provided materials, samples and patterns by Lindström and it is crucial for them that all the design and quality need to be identical among vendors. (Pyhältö 2012) One example of the standard quality is the company signature “Lindström” tag in every ready-made garment product that is shown in Figure 13.



FIGURE 13. Product's label

In general, designs and patterns are made in the headquarters in Helsinki and sent to suppliers worldwide for the garment making. As mentioned earlier, all of the products are required to meet Lindström's quality standard with the same appearance among vendors. In order to do that the sourcing process is planned carefully and comprehensively from the starting point of choosing supplier. In the next sub-heading, the case company's sourcing process will be presented with the criteria for choosing supplier based on the interview with the sourcing manager of the firm.

4.3 Criteria in supplier selection process

Based on the criteria that have been discussed earlier for the decision-making sourcing process, the author interviewed the strategic sourcing manager of Lindström Oy to describe the company's sourcing process and their requirements in the suppliers and sourcing countries. The manager had chosen 3 most important factors of the supplier's evaluation process. They include quality, flexibility and cost. Minor issues such as delivery and reliability are important as well however not to be considered as critical points.

Lindström's sourcing process has been indicated by Pyhältö (2012) starting from the country's risk analysis. Following by the potential supplier's risk analysis and eliminate unqualified suppliers by a check list of criteria. Suppliers are required to demonstrate stable financial standing, reliable deliveries and agreed quality. The choice of suppliers is also influenced by ethical factors, environmental indicators and risk assessments, suppliers who have certified quality system are highly evaluated. For example ISO-9000 certification is the quality management system that apparel firm can trust and should expect from the potential vendors. After evaluation, the supplier's products go through a test wash, test use. This is followed by acquiring a test batch to assess delivery reliability and quality. (Lindstromgroup 2011, 47.) Only after this the final decision is made whether or not they will become new suppliers of Lindström.

Step to step, the selection and evaluation process of new suppliers by Lindström are comprehensive, linked tightly to each other and need to be conducted carefully as it will decide the success of the business (Pyhältö 2012). Pyhältö specified the importance of the sourcing process as the criteria are constantly changing based on the shifting of the market and the need for new suppliers always exists. He pointed out the fact which Enarsson (2006) agreed in the theoretical part that Lindström does not want to depend on single supplier for any product and it is extremely important to have back up plan in order to minimize risks.

According to Pyhältö (2012) the most important factor for Lindstrom when considered choosing suppliers is the product's quality that they can offer. Lindström has many suppliers from various countries and it is crucial that the quality is standard from all the vendors which mean the same fabric, same product and same procedure. In more details, Lindström looks for suppliers that have experience in the workwear industry and exporting to European countries. The supplier should have suitable equipment and machineries that can produce Lindström's standard quality products.

The second important criteria according to Pyhältö is the flexibility of potential supplier because Lindström always has secured capacities therefore it is important that the supplier have inventory availability and agree on restore the leftover

products afterwards and can sell them to other sourcing companies. In case of unsellable inventory, Lindström have to pay for that secured capacities therefore it will be a big plus for the suppliers if they are able to be flexible on conditions and terms. (Pyhältö 2012)

The third important factor is the cost of production as discussed earlier; one reason that made Lindström start looking for suppliers from Vietnam is the rising cost from surrounding countries such as India and especially China-the current biggest supply country for Lindström. Therefore the price that suppliers can offer will affect the final decision making. However Pyhältö also specified that the product's quality is the most concerned factor and the price can be high for qualified products.

Minor factors including delivery and reliability play important roles when evaluating suppliers also, however, in the early stage of searching, the factors described above are given more attention. According to Pyhältö (2012), companies who have been in business with foreign partners are more reliable than others and they have experience in the field as well as the technical know-how thus easier to work with them. He also mentioned about the currency fluctuations in different markets and normally the vendors would prefer US dollars than euros and the case is also applied in Vietnam where the US currency is more stable than euros. Regarding country's political situations, Lindström prefer their sourcing locations to have a stable politic. One example of this case is the suppliers from Pakistan were not qualified as their country's situation is too dangerous and risky according to the risk analysis conducted by the company (Pyhältö 2012).

4.4 The process of selecting suppliers

One of the study's objectives is to find a list of potential suppliers for the case company and in this sub-chapter the process of finding and selecting Vietnamese vendors will be elaborated.

During the author's practical training period at the case company, a desk research for potential suppliers was carried out based on the firm's main criteria and some other standards from the author's point of view. As mentioned above, the principles for the selection process are the quality, cost and flexibility of suppliers. However in this early stage of research, the chosen producers are mostly required to have international trade experience and specialize in producing workwear garments. They should have some certifications for the quality such as the ISO-9000 as discussed earlier. Geographically they are companies from big cities in Vietnam as it would be more reliable and normally big suppliers have offices there.

From the author's point of view, potential suppliers should not be SOEs (State Owned Enterprises) as from her own experience they do not show much interest in small to medium order sizes and with their complicated hierarchy it would take more time to evaluate these suppliers. The chosen suppliers are from non SOEs companies who shows interested in Lindstrom from the first step of email communication and phone thus would be easier to work with them.

The procedure of finding Vietnamese suppliers is really hard and time consuming as the information is still limited from the internet and many companies have very poorly constructed websites with little information. The author started the finding process with some websites which had the garment companies list and checked each producer. Yellowpages.vnn.vn/business was one of these webpages which showed convenience to not only the garment industry but other sectors as well. After checking the supplier's website and if they met some basic requirements as mentioned above, email communications and phone calls were made in order to get in contact with them for more information.

After the search, about 16 companies are selected based on their experience in international trade and willingness to cooperate with Lindstrom. The suppliers offered workwear garments and have been outsourced by other firms as well. Table 5 presents the vendors' names and information.

TABLE 5. List of supplier and contact information

HN: Hanoi

HCM: Ho Chi Minh city

Number	Company	Location	Email	Website
1	BINH GIANG COMPANY LIMITED	HN	binhgiangltd@hotmail.com	binhgiang.com.vn
2	BINH MINH GARMENT STOCK COMPANY	HCM	bigamex@hcm.vnn.vn	bigamex-vn.com
3	HUNG YEN GARMENT JOINT STOCK COMPANY NO.2	Hung Yen	may2hy@hn.vnn.vn	mayhungyen.com.vn
4	MARCH 29 TEXTILE - GARMENT COMPANY	Da Nang	hachiba@dng.vnn.vn	hachiba.com.vn
5	MINH TAM EXPORT JSC	HN	minhtamson@gmail.com	minhtamexport.com
6	SAIGON 3 GARMENT JOINT STOCK COMPANY	HCM	trading@saigon3.com.vn	www.saigon3.com.vn
7	SON NAM TEXTILE & GARMENT JOINT STOCK COMPANY	Nam Dinh	sonatex@hn.vnn.vn	sonatex.vn
8	THAI BINH	Thai	thacotex@hn.vnn.vn	thacotex.vn

	THANH CONG TEXTILES AND GARMENT EXPORT CO., LTD.	Binh		
9	THUY UYEN MANUFACTURI NG AND TRADING CO., LTD	HCM	thuyuyenco@yahoo.com. vn	thuyuyen.com.vn
10	BINH TAN CO., LTD	HCM	binhtan@hcm.vnn.vn	binhtan.com.vn
11	DET MAY HOANG DUNG	Nam Dinh	info@detmayhoangdung. com.vn	detmayhoangdung.co m.vn
12	THANG LOI INTERNATIONA L GARMENT JSC	HCM	mtl@maythangloi.com.vn	maythangloi.com.vn
13	VIET THANG GARMENT JOINT-STOCK COMPANY	HCM	vietthang@vietthang.com .vn	vietthang.com.vn
14	BAO MINH PROTECTOR COMPANY	HCM	duongminhbhld@gmail.c om	baohobaominh.com/en
15	NNM PROTECTOR COMPANY	HN	kd4@nnmsafety.com.vn	nnmsafety.com.vn
16	DONG TIEN VIET COMPANY	HCM	dung@dongtienviet.com	dongtienviet.com/hom e.html

4.5 Evaluation of Vietnamese garment supplier

This chapter indicates the final evaluation of Vietnamese garment supplier based on 3 criteria as discussed earlier. Those criteria include the delivery, quality, flexibility, cost and reliability of Vietnamese garment supplier as consider the most important requirements from the case company.

4.5.1 Delivery of Vietnamese supplier

According to Nguyen (2010, 74-75), the delivery time of Vietnamese suppliers to European countries is about 60-90 days of which the actual garment making time takes 30-45 days. The common transport methods are by rail or sea way and due to geographical reason; it usually takes long time for garments delivery from Vietnam to Europe and the US.

SOEs and big private companies are able to deliver garments after production, however, small private ones seem incapable of offering this service. In many cases, buying foreign companies decide to use service by logistics companies for faster shipment. There are about 800 logistics companies in Vietnam covering the North, Central and South regions of which many offer shipment to Finland (spireresearch 2008). Some famous international logistics companies that have offices in Vietnam include Maersk Line, Kuehne + Nagel and DB Schenker which normally have higher price services compared to domestic companies. According to Pyhältö (2012) Lindström has been using Kuehne + Nagel logistics services for a long time and haven't had any major problems so far. In appendix 1, contact information of Maersk Line, Kuehne + Nagel and DB Schenker in Vietnam are provided as well as their estimated prices for transportation to Finland based on emails communication.

4.5.2 Flexibility of Vietnamese supplier

During research and personal contacts with Vietnamese suppliers, the author concluded that they have great flexibility in capacity and inventory and are willing to negotiate as well. There were many garment factories showing little interest on cooperation with Lindström or there was no reply on emails or phone calls however those who answered presented their willingness already in the first stage. However it should be noticed that only medium sized companies are able to have storage for leftover inventory and greater capacity. As mentioned earlier, suppliers from Vietnam often lose interest in small quantity orders after time therefore buying companies should make detailed plans in increasing orders in the future and choose suitable suppliers based on it.

4.5.3 Cost of Vietnamese supplier

As argued earlier, the nature of the Vietnamese apparel industry is labor-intensive and labor costs make up to 60 percent of final cost. According to Nadvi and Thornburn (2003, 16), Vietnam's wage rate in the apparel industry is around US\$ 56 monthly. This varied sharply by firm type, from a low of US\$ 47.50 per month as average wages in private firms to a high of US\$ 75 a month in SOEs. This indicates that the average salary per hour in the apparel industry is from \$0,2 to \$0,4 which is among the lowest in the world. Figure 14 presents apparel labor cost in Vietnam and surrounding countries by Jassin O'Rourke Group (2005).

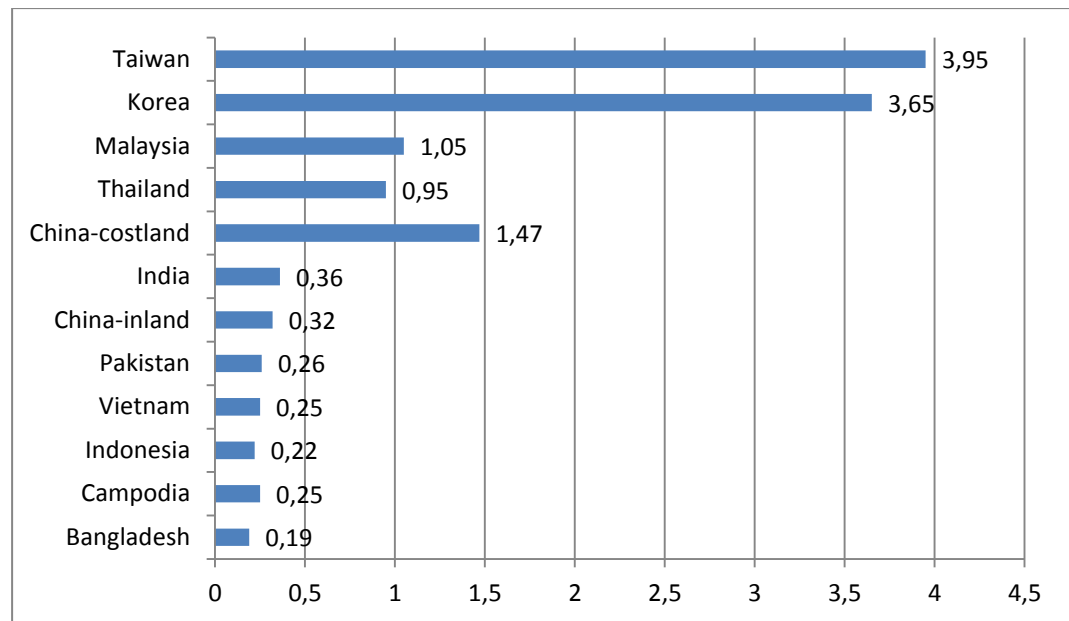


FIGURE 14. Apparel labor cost (\$/hour) in Asian countries (edited based on Jassin O'Rourke Group 2005)

It should be noted that the wages vary among different parts of Vietnam. For example, the salary in the South of Vietnam especially in Ho Chi Minh city industrial zone is normally higher than Northern Vietnam. This attracts many migrant workers from poorer areas in the central and northern Vietnam to move there for work. (Nadvi 2003, 14-15.)

Enjoying government's support policies, Vietnamese suppliers have no restrictions on garment export products with a rather low export tax of 10 percent compare to 14-15% normally therefore it makes the total cost for Vietnam's garment products relatively lower than other competitors (Nadvi 2003, 14).

4.5.4 Quality of Vietnamese supplier

Analyzing the quality of Vietnamese garment exports is crucial for one to understand deeply the nature of the market and awareness of the product's quality level in the destined country. In a nutshell, garments exported from Vietnam are mostly

simple products with uncomplicated details such as cotton shirts, polo shirts, T-shirts, jackets, trousers etc. Made from cotton and polyester (Nguyen 2010)

According to Nguyen (2010) there are many international brands that have currently been sourcing from Vietnam with a long time partnership such as Tommy Hilfiger, Victoria's Secret, Lee Cooper and Pierre Cardin etc. In which Pierre Cardin has been cooperated with a famous Vietnamese fashion brand-An Phuoc specialized in shirts and suits for men since 1997. They have developed a new brand called An Phuoc-Pierre Cardin and been famous for the high quality and distinguish designs. As mentioned earlier, Vietnam is the second biggest garment supplier for the US and has been exporting garments to many international markets for years. Therefore it can be said that Vietnamese suppliers are able to produce quality garment products that fulfill foreign buyer's requirements.

As discussed earlier, Vietnam is trying to move forward in the production chain from CMT to FOB service therefore many investments in modern machinery and technologies have been made in recent years. However it should be noted that these efforts of upgrading production chain and enormous investments usually lie in the upstream sector which are SOEs companies controlled by the government. International brands are usually cooperated with those SOEs or big private companies as well because of the resources and high quality products that they can offer.

The quality of Vietnam's garment products is continuously developing as the producers are always willing to learn and expand their business in most cases. Given the dynamic business environment of Vietnam which is filled with competitors and the hard-workmanship that rooted in the country's nature, suppliers from Vietnam have to survive through a tough competitive market. It has been indicated in many reports that the suppliers have the ability to produce quality products but the problem is whether they want to do it as usually only big quantity orders are appreciated and made more carefully. Vietnamese suppliers normally lose interests in small order after years hence the quality of products might be decreased (Nguyen 2010).

In the workwear industry, Vietnam is still underdeveloped with cheap and simple products for the domestic market. Compared to the EU market, workwear products from Vietnam have lower quality in both fabric and design. However it should be noted that based on the nature of the country especially the hot and humid weather in Vietnam, workers usually do not need thick clothes but more like uniform for the companies. In Finland the cold weather with very long winter requires thick and high quality workwear products especially for outside workers. Therefore in Lindström case, it is advised that the company should only look for and contact suppliers who specialize in exported workwear products to meet the standards of EU market.

4.5.5 Reliability of Vietnamese supplier

Regarding the reliability of Vietnamese suppliers, factors including the country's political situation and the stability of the economy are needed to be examined. As discussed earlier, Vietnam is ruled by the Communist Party with a stable political environment which supports the nation's economic development. In recent years Vietnam as well as many other countries has been under the influences of the global financial crisis which lead to the low growth of GDP and the fluctuation of foreign rates exchange due to high inflation (vietnam-report 2013). In March 2013 the inflation rate was recorded as 6.64% which is rather low compared to 23% in 2008 (tradingeconomics 2013). Figure 15 shows the changes in inflation rate of Vietnam from 2011 till now.

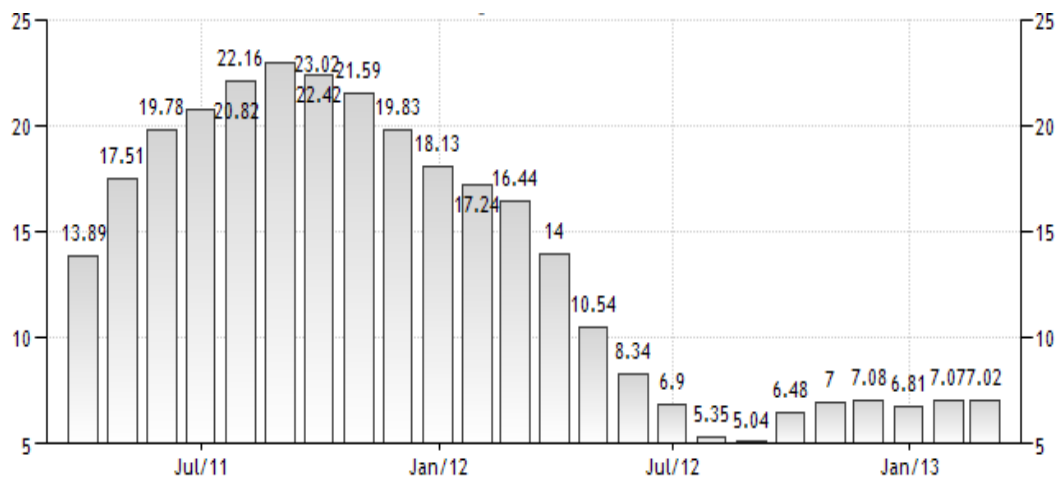


FIGURE15. Inflation rate of Vietnam (tradingeconomics 2013)

In figure 15 it is clearly stated that the inflation rate of Vietnam was really high and fluctuated during periods, however, from 2012 to forward it was rather stable. Foreign companies are advised to watch closely the changes in Vietnam's economic environment to minimize risks especially the fluctuation in inflation and foreign rates.

Concerning the reliability of each supplier, such as warranty policies and feeling of trust are hard to examine and they depend on each company. Traditionally SOEs and big private companies are more reliable in business with clear contracts and warranty policies. Many small private suppliers might not be able to offer warranty as their resources are limited. It is advised for the case company to check carefully and more research for each individual provider should be carried out in order to make valid assumptions.

5 CONCLUSIONS AND RECOMMENDATIONS

The purpose of this study is to assist the case company to answer the main research question whether to start sourcing garment products from Vietnam or not. The question will be answered later in this chapter after reviewing the characteristics of Vietnam's apparel industry with the evaluation of Vietnamese suppliers.

When it comes to a final decision, all the prior information and analyses should be simplified and pointed out in order to review important factors that have impact on the conclusion of sourcing from Vietnam.

Firstly, the apparel industry is one of the main priority markets which received supportive policies from the Vietnamese government. Currently the apparel sector has a strong and steady growth in spite of the financial crisis which has a major impact in many other industries especially banking and real estate in Vietnam. Vietnamese apparel industry features SOEs (state-owned-enterprises) and private companies of which SOEs have rich resources and direct connections to foreign buyers as well as high capacity production. Private companies on the other hand are often small in size and unable to offer many services such as warranty policies. Many private producers do not have the ability to supply quality fabrics and materials however it might be easier to work with them because of their flexibility.

Currently, Vietnam's garment-textile sector is known for its cheap labor cost hence the total production price is rather low compared to neighboring countries especially China. As mentioned earlier, labor cost in Vietnam is among the lowest in the world which is the main competitive advantage of the Vietnamese garment industry. The main production method is CMT which brings little benefits and the industry is still unable to provide FOB production. The government is trying to upgrade the value of the sector as many investments have been made with the strategic plan of increasing domestic produced materials for garment making. In other words, Vietnam is trying to be able to offer FOB production by upgrading the upstream sector of the industry.

At the moment, the textile industry is incapable of providing enough and different type of fabrics as well as materials for the domestic's demand. With low quality domestic produced fabrics, the apparel industry is fully dependent on foreign supply, therefore, the value-added percentage of the sector is rather low compared to other surrounding countries. The high quality workmanship has attracted many international buyers to Vietnam however the unavailability of materials and low quality in fabrics are one of the most challenging factors for Vietnam's apparel industry. However with a fast and steady growth during the past decade, the sector is expected to be much more competitive in near future and able to produce high quality garments with FOB production.

Garments exported from Vietnam are often simple products such as T-shirts, polo shirts, trousers etc. which are made from cotton and polyester. Vietnamese suppliers are able to produce quality clothes and many international brands have sourced products from Vietnam for years. However the process of finding the right suppliers is more complicated as it involves time, resources and information. Moreover many international buyers find it hard to deal with Vietnamese producers because of their lack in communication skills, especially in English.

The case company's desired sourcing product is the "ready to made workwear" collection with high quality standard. Currently in Vietnam workwear export is not the industry's strength and the products that Lindström is looking for are only specially made as orders from international buyers. However it is the author's opinion that the firm should choose and start sourcing from these exported garment producers since they have experience and ability to produce quality workwear.

After research, it can be concluded that Vietnam is an attractive sourcing location for the case company and they should start looking for suppliers there. The Vietnamese apparel industry is ideal for companies which have enough resources and concentrate on low cost strategy and Lindström is one of those. With its experience in international trade with previous suppliers from various countries, the author strongly believes that the firm will successfully implement a sourcing plan

for Vietnam after careful evaluation process. The potential suppliers should be specialized in exported workwear production and have experience in the field. In order to find the right suppliers, further studies are advised to be carried out in each particular company and expanded to other vendors as well. In addition, field studies are expected to be done as it will evaluate more accurately the real situation of the Vietnamese textile-garment industry and each producer.

In conclusion, with a fast and stable development, the Vietnamese garment-textile industry is expected to attract more and more investment in the near future and currently is an ideal sourcing location for the case company. It is strongly believed that Lindström should start the sourcing process as soon as possible and make more studies for an effective implementation plan.

6 SUMMARY

The purpose of this study is to assist the case company in assessing the potentials of Vietnam as a new sourcing country for them. As a consequence, all the important topics argued within this study are based on the company's interests. There are 2 main parts that the thesis has been divided into: theoretical and empirical.

In the literature review, background information about global sourcing and discussion of its own advantages and disadvantages has been made. Moreover, related theories supporting the topic were indicated, including the characteristics of strategic sourcing and the criteria in supplier selection process. These theories acted as helpful tools later in the empirical part to assist the author in exploring the nature of the Vietnamese garment-textile industry and supplier evaluation process.

As a result of the theoretical findings, the author approached the empirical part in a logical method. The main conclusion is that the case company's product can be sourced from Vietnam even though the selection and evaluation process might be long and exhausting. Research questions from the first chapter, including the nature of the Vietnamese garment-textile industry as well as the situation of domestically produced fabrics, cost of production and the quality of garments, have been answered. With the help of selected theories, evaluation of Vietnamese suppliers was conducted in chapter 4 based on 5 criteria including delivery, flexibility, cost, quality and reliability of the nation's producers. A list of potential suppliers in Vietnam based on early research was given as future research materials for Lindstrom.

Finally it was concluded that Lindström should start the sourcing process from Vietnam beginning with the given suppliers and expand the list later in further research. It was the author's suggestion that Lindstrom should focus on private producers who had experience in workwear industry and had cooperated with international buyers like the case company. Future studies are recommended to be made if Lindström approves this proposal.

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APPENDICES

APPENDIX 1: International logistics companies in Vietnam and their shipping rates from Vietnam to Finland

1. Maersk Line Head office

Ho Chi Minh City

Customer Service - Export: (vnmcsenmg@maersk.com)

Customer Service - Import: (vnmcsimng@maersk.com)

Sales: (sgnsaldir@maersk.com)

Customer Service +84 8 38238566

Maersk Line Hanoi Branch

Internation Center, 6th Floor, Unit 01, 17 Ngo Quyen St., Hoan Kiem District

Customer Service - Export: (vnmcsenvhn@maersk.com)

Customer Service - Import: (vnmcsigenvhn@maersk.com)

Sales: (vhnaldir@maersk.com)

Customer Service +84 4 39363693

Standard Bunker Adjustment Factor (SBF):		
Container type:	Current charges: (Feb)	Upcoming charges: (Mar)
20'dry container	USD 560	USD 600
40'dry container	USD 1,120	USD 1,200
40'high cube dry container	USD 1,120	USD 1,200
45'high cube dry container	USD 1,120	USD 1,200
USD <input type="button" value="v"/> Change displayed currency?		

Bunker Adjustment Factor (BAF):		
Container type:	Current charges: (Feb)	Upcoming charges: (Mar)
20'dry container	USD 790	USD 855
40'dry container	USD 1,580	USD 1,710
40'high cube dry container	USD 1,580	USD 1,710
45'high cube dry container	USD 1,580	USD 1,710
USD <input type="button" value="v"/> Change displayed currency?		

2. Kuehne + Nagel Vinatrans Ltd – National Head Office

266-268 Nam Ky Khoi Nghia st, Ho Chi Minh city, VN

Tel +84-8-35-267-288

Contact person: hai.nguyen@kuehne-nagel.com

Website: http://www.kn-portal.com/locations/asia_pacific/vietnam/

Price in March 2012: Sgn-Helsinki (port to port): US\$ 1650/3050/3150 per
20'/40'/40'hc

3. Schenker Vietnam

194E Pasteur Str., Dist. 3, HCMC, VN

Tel: 84-8 8256488 - Ext : 541

Fax: 84- 8 8233803

Contact person: cong-nhan.le@dbschenker.com

Website: www.schenker-vietnam.com

Ocean freight from Ho Chi Minh port, Hai Phong port to Helsinki port:

\$ 1500/ 2800/ 2950 per cont 20'/40'/40hc

THC: \$ 85/ 135/ 155 per cont 20'/40'/40hc